

ELLIOTT & ELLIOTT, P.A.  
ATTORNEYS AT LAW  
721 OLIVE STREET  
COLUMBIA, SOUTH CAROLINA 29205  
[selliott@elliottlaw.us](mailto:selliott@elliottlaw.us)

SCOTT ELLIOTT

TELEPHONE (803) 771-0555  
FACSIMILE (803) 771-8010

December 29, 2004

VIA HAND DELIVERY

Mr. Charles Terreni  
Chief Clerk of the Commission  
SC Public Service Commission  
P. O. Drawer 11649  
Columbia, SC 29211

RE: Application of Development Service, Inc., for approval of a  
New Schedule of Rates and Charges for Sewage Service provided  
to Residential and Commercial Customers in all areas served.  
Docket No.: 2004-212-S

Dear Sir/Madam:

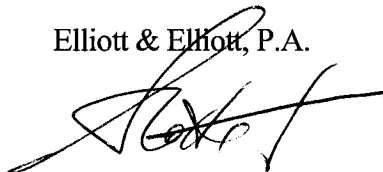
Enclosed are the original and twenty-five copies (25) copies of the **Rebuttal Testimony of Keith G. Parnell** filed on behalf of Development Service, Inc. in the above referenced docket. By copy of this letter, I am serving all parties of record.

I have enclosed an extra copy of this testimony which I would ask you to date stamp and return to me by my courier.

If you have questions or need additional information, please do not hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.



Scott Elliott

SE/jcl

Enclosures

c: All parties of records w/enc.

**THE PUBLIC SERVICE COMMISSION**  
**OF**  
**SOUTH CAROLINA**

**DOCKET No.: 2004-212-S**

**Application of Development Service, Inc. for  
Approval of New Schedule of Rates and Charges  
for Sewage Service provided to Residential and  
Commercial Customers in all areas served.**

**PREFILED REBUTTAL TESTIMONY**

**OF**

**KEITH G. PARNELL**

**December 29, 2004**

HEARD DATE: OK D. Werts  
BY: OK D. Werts

1 **Q. Please state your name, business address and your affiliation with the**  
2 **applicant Development Service, Inc. (DSI).**

3 A. Keith G. Parnell, P. O. Box 258, Lexington, South Carolina 29072. I am the  
4 President and Operations Manager for DSI. I am also Operations Manager for Bush River  
5 Utilities, Inc. (Bush River) and Midlands Utility, Inc. (Midlands), respectively.

6 **Q. Mr. Parnell what is the purpose of your rebuttal testimony?**

7 A. The purpose of my testimony is to clarify certain misconceptions that the Office  
8 of Regulatory Staff (ORS) holds concerning our rate application and operations.  
9 Specifically I will explain more fully the construction of the upgrades necessary to Bush  
10 River's wastewater treatment facilities, clarify DSI's obligations under the terms of the  
11 financing necessary to permit us to upgrade the facilities owned by DSI, Bush River and  
12 Midlands. Certain other issues raised will be commented upon for clarification.

13 **Q. Please describe more fully the relationship of Bush River and DSI as it**  
14 **relates to the companies' rate increase applications.**

15 A. As I have testified, operating under rates approved by this Commission in 1996,  
16 customers of Bush River and DSI are charged similar rates for similar services. As Bush  
17 River goes so does DSI. The fact that Bush River must make capital improvements and  
18 meet environmental compliance schedules will result in financing costs for upgrading its  
19 wastewater treatment facility. Accordingly, Bush River will incur higher operating costs  
20 and has proposed its rates and charges applied for in its application. As a consequence,  
21 DSI will incur higher operating costs and will similarly require an increase in rates.

22 **Q. Please describe Bush River's service and customer base.**

1 A. Bush River is a privately owned sewer company headquartered in Lexington,  
2 South Carolina. It is a closely held South Carolina corporation with operations in parts of  
3 Richland and Lexington Counties. It provides sewer collection and sewer treatment  
4 services to approximately 35 commercial customers in the Dutch Square area. Bush  
5 River serves no residential customers. Its largest customer is DSI.

6 **Q. Please describe more fully the operational relationship of Bush River and**  
7 **DSI.**

8 A. In addition to its 34 commercial customers, Bush River treats wastewater  
9 collected by DSI. As authorized by the South Carolina Public Service Commission  
10 (Commission) in Order Number 96-44, Docket Number 94-727-S, dated January 19,  
11 1996, Bush River is authorized to charge its commercial customers under a schedule of  
12 rates and charges DSI a monthly wholesale rate for treatment of DSI's wastewater. The  
13 monthly cost of treatment charged by Bush River represents DSI's primary operating  
14 expense. Indeed, the ORS Auditors have determined that the monthly service charge  
15 paid to Bush River by DSI is 75% of DSI's revenue. We have maintained equality of  
16 rates between DSI and Bush River so that customers of Bush River and DSI are charged  
17 similar rates for similar services, a policy embraced by this Commission in Order # 96-  
18 44. Bush River also has an application for a rate increase pending before the  
19 Commission.

20 **Q. Please remind this Commission of the facts and circumstances leading up to**  
21 **the rate increase applications brought by DSI and Bush River pending before the**  
22 **Commission.**

1 A. As a public utility, Bush River is under the jurisdiction of this Commission.  
2 However, the South Carolina Department of Health and Environmental Control (DHEC)  
3 also has authority over Bush River since it regulates its wastewater discharges into the  
4 Saluda River. DHEC has ordered Bush River to construct an upgrade to its wastewater  
5 treatment facility at a cost of approximately \$1,000,000. In addition, Midlands has also  
6 been required by DHEC to upgrade three of its wastewater treatment facilities. By  
7 making the necessary improvements to our systems, we will streamline operations,  
8 eliminate unnecessary costs and improve service to our customers. Because of the  
9 tremendous cost of upgrading our facilities in compliance with DHEC requirements, we  
10 must borrow the necessary construction costs. Accordingly, Bush River, DSI and  
11 Midlands have applied for and obtained financing from BB&T in the amount of  
12 \$2,021,400 to upgrade and modernize our plants. In addition, my brother C. Ken Parnell  
13 and I have pledged our assets to guarantee repayment of this loan. The loan funds will be  
14 advanced only when and if this Commission approves the rate increases necessary to  
15 service the debt. The Consent Order is attached to my rebuttal testimony as Exhibit 1.

16 **Q. Under the terms of your consent order with DHEC what is Bush River now**  
17 **required to do?**

18 A. Essentially, Bush River must close its wastewater treatment lagoon and construct  
19 a modern wastewater treatment facility.

20 **Q. What steps are required for Bush River to construct its new wastewater**  
21 **treatment facility?**

22 A. First, because we are under the jurisdiction of DHEC, we are required to submit a  
23 preliminary engineering report or PER. A PER is designed to inform DHEC of a utility's

1 proposal for improving its wastewater treatment facilities by outlining the design,  
2 engineering and physical requirements of a wastewater treatment facility prior to the cost  
3 and effort of preparing construction documents or a construction plan. DHEC then  
4 evaluates the PER to determine that the facility will be constructed according to its  
5 requirements, discharge the effluent within its limitations and be adequate in size to  
6 handle our customer needs.

7 **Q. Has a PER been submitted to DHEC?**

8 A. Yes and it has been approved by DHEC. Please see a copy of the DHEC approval  
9 as evidenced by their official stamp dated October 22, 2003, affixed to the title page of  
10 the PER which is attached to my rebuttal testimony as Exhibit 2.

11 **Q. What is next required of Bush River?**

12 A. Bush River has submitted construction plans to DHEC as required, and these  
13 construction plans have been approved. Please see a copy of DHEC wastewater  
14 construction permit dated November 29, 2004, which is attached to my rebuttal testimony  
15 as Exhibit 3.

16 **Q. What do the construction plans provide for?**

17 A. Employing current technology, the construction plans provide for construction of  
18 a sanitare sequenching batch reactor, a wastewater treatment plant capable of treating  
19 400,000 gallons per day and meeting DHEC's current most stringent discharge  
20 limitations. DHEC has approved our construction plans. Construction is expected to  
21 take eighteen months.

22 **Q. What will the wastewater treatment plant cost to build?**

1 A. Based on the engineering design and current construction costs, the total  
2 construction cost alone will be at a minimum \$932,278. Please see the copy of the cost  
3 statement of HPG and Company Consulting Engineers, Inc., Bush River's engineers,  
4 setting forth the construction costs of the wastewater treatment facility upgrade attached  
5 to my rebuttal testimony as Exhibit 4. Closing Bush River's lagoon will cost  
6 approximately \$150,000.

7 **Q. Has Bush River begun to undertake steps necessary to construct the new**  
8 **wastewater treatment facility?**

9 A. Yes. Because Bush River is highly regulated, it is also subject to regulation by  
10 Lexington County. When we applied with Lexington County for the necessary permits,  
11 Lexington County determined that our current plant as well as our proposed plant was in  
12 the floodway and required us to situate and construct the plant at sufficient elevation so  
13 as not to interfere with the flow of water in a hypothetical hundred year flood.

14 **Q. Has Bush River satisfied the requirements of the Lexington County?**

15 A. Yes. We have engineered the plant in such a fashion as to obtain a "no rise"  
16 certificate from Lexington County. As a result, construction will not interfere with the  
17 flow in a hundred year rain storm. Please see the "no rise" correspondence issued by  
18 Lexington County which attached to my rebuttal testimony as Exhibit 5. Bush River will  
19 satisfy Lexington County's requirement concerning the land disturbance or soil erosion .

20 **Q. Does DSI have any specific upgrades to its plant operations other than the**  
21 **related costs reflected in its application?**

1 A. No, DSI does not operate a wastewater treatment facility, but is a collection only  
2 service. The assets of DSI are subject to a guarantee of all loan funds advanced for the  
3 necessary upgrades of Bush River and Midlands.

4 **Q. Mr. Parnell, are you familiar with each of the exhibits filed with Bush**  
5 **River's rate application in Docket No. 2004-259-S?**

6 A. Yes. I have personally been involved with the preparation of the information in  
7 each exhibit and those which were not directly prepared by me were prepared under my  
8 supervision.

9 **Q. Both DSI's and Bush River's application requests rate increases to be**  
10 **implemented in two stages. Please explain.**

11 A. DSI's and Bush River's last rate increase was approved on January 19, 1996, and  
12 was based on the level of operating expenses experienced in 1994, the test year. In  
13 addition to the increased operating costs experienced in the preceding ten years, Bush  
14 River will incur additional cost and expense associated with the increased cost of  
15 treatment resulting from its construction of its wastewater treatment facility  
16 improvements. These additional costs necessitate the first stage rate increase. The  
17 second stage increase in rates will be required upon completion of Bush River's  
18 construction so as to permit it to pay the resulting increase in operating costs which  
19 include its share of interest, principal repayment and depreciation for the three  
20 companies.

21 **Q. Explain more fully how Bush River proposes to pay for construction of**  
22 **improvements to its wastewater treatment facility?**



1 A. The necessity to upgrade its wastewater treatment facility imposed upon Bush  
2 River by DHEC required all three utilities to enter into a credit facility to borrow over  
3 \$2,021,400.

4 **Q. Mr. Parnell, please remind the Commission of the details of this loan.**

5 A. DSI, Bush River and Midlands have entered into a loan which closed on April 8,  
6 2004. In order to borrow the necessary funds, all three companies' assets were pledged,  
7 together with a personal guarantee by my brother and me. Approximately \$80,000 was  
8 expended for the purpose of paying for appraisals, surveys, abstracts, origination fees and  
9 related legal fees. The real estate mortgaged is primarily owned by Bush River and  
10 Midlands and located in the counties of Richland, Lexington, Fairfield and Orangeburg.  
11 The lender is Branch Banking & Trust Company (BB&T) for a total amount of  
12 \$2,021,400. A copy of the loan agreement can be found as Exhibit 5 of the testimony of  
13 Willie J. Morgan in this docket.

14 **Q. What are the interest provisions and repayment conditions of the loan?**

15 A. The loan is scheduled to be repaid 60 months from April 8, 2004, through the  
16 same date in 2009. The loan has a repayment amortization of 15 years with a balloon  
17 payment due at the maturity of the five years. Interest is currently 5.4%. The loan has a  
18 collar with a floor rate of 4.65% and a ceiling of 7.70%. The bank allowed us to receive  
19 about \$50,000 as an advance toward closing costs. Any further advances are restricted  
20 depending upon whether the respective companies obtain necessary rate increases from  
21 the Commission.

22 **Q. Is Bush River in compliance with DHEC requirements?**

1 A. Bush River is in compliance with the terms and conditions of its consent order  
2 with DHEC.

3 **Q. Mr. Parnell, are the expenses, revenue and adjustments to operating**  
4 **expenses as exhibited in the application of Bush River in Docket No. 2004-259-S**  
5 **accurate?**

6 A. Yes, they are.

7 **Q. Do you expect the proposed rate increases for both DSI and Bush River will**  
8 **produce sufficient revenues to allow the companies to meet their expenses and earn**  
9 **a fair return?**

10 A. Yes, I do. Our study of the necessary adjustments show they will produce a  
11 reasonable operating margin based upon the percentage increase to our customers. To the  
12 extent any updating of information would occur before the hearing of this docket, we will  
13 update any adjustments necessary, including rate expense.

14 **Q. Mr. Parnell, do you believe that the proposed two stage rate increases are**  
15 **just, fair and reasonable to all of DSI's and Bush River's customers?**

16 A. Yes, I do. If for instance, this Commission were to grant DSI a return using a  
17 14.92% operating margin as recommended by ORS, DSI would be forced to reapply for a  
18 second rate increase once Bush River completed its construction. DSI, this Commission  
19 and the ORS would incur additional costs and expense which of necessity would be  
20 passed along to DSI's customers. A two-stage increase would avoid these costs. On the  
21 other hand, were this Commission to grant DSI a single increase necessary to meet its  
22 inevitably higher treatment costs, its operating margin must be closer to 26%. A two-  
23 stage increase would be easier for our customers to absorb.

1   **Q.     Are the construction and financing costs for the Bush River wastewater**  
2   **treatment facility upgrades known and measurable?**

3   A.     Yes. Contrary to the assertion of Ms. Hipp and that of Mr. Willie J. Morgan in  
4   their direct testimony, the construction and financing costs are both known and  
5   measurable. First, Bush River is required by the terms of its consent order with DHEC to  
6   construct and upgrade of its wastewater treatment facilities. Not only is Bush River  
7   acting under the compulsion of an enforceable consent order, but also it has by its  
8   conduct in its submittals to DHEC and its obtaining necessary financing demonstrated a  
9   commitment to undertake the construction project at a cost of in excess of \$932,278.  
10   Accordingly, the construction costs are known and measurable. DSI has historically paid  
11   75% of its revenues to Bush River as a treatment cost. DSI's treatment costs are known  
12   and measurable. Moreover, the financing costs are known and measurable. The terms of  
13   the loan are not in dispute. My brother and I own all of the stock for the three companies.  
14   The three companies are not one-third liable but 100% liable for all funds borrowed.  
15   The borrowing between the companies of assets and specialized equipment assures  
16   maximum utilization. In summary, the upgrades required of Bush River are known and  
17   measurable. The evidence shows that computable costs, including debt service will be  
18   incurred. This request for an increase is based upon the known and recognized cost  
19   requirements of the DHEC consent orders. It is unlikely that any business which must  
20   use financial leverage could first build its new upgrades without the loan agreement for  
21   funds from the bank. The loan is totally dependent upon this Commission approving an  
22   operating margin sufficient to cover the increased operating expenses of DSI because of  
23   its contract for collection of wastewater through Bush River. Furthermore, this

1 Commission may and should grant the second stage rate increase requested by both DSI  
2 and Bush River after both utilities satisfy this Commission that the construction is  
3 complete at the costs as represented.

4 **Q. Mr. Parnell, Dawn M. Hipp in her direct testimony, questions DSI's**  
5 **proposed tap fee. What justification for the proposed tap fee can you offer?**

6 A. Contrary to the assertion of the ORS, the proposed increase of the tap fee is  
7 justified and consistent with the S.C. Code Regs. Detailed information concerning the  
8 upgrades of the Bush River wastewater treatment facility have been furnished to the ORS  
9 and have been made a part of this record. The proposed tap fee is clearly designed to pay  
10 for the cost of the tap and represents the cost of capacity reserved by DSI's new  
11 customers in Bush River's system.

12 **Q. Mr. Parnell, do you take issue with the ORS testimony concerning the**  
13 **appropriate bond and surety.**

14 A. Yes. We have complied with the requirements of this Commission.

15 **Q. What if any additional specific concerns have been raised by the ORS**  
16 **testimony?**

17 A. For instance, the ORS auditor's standards for depreciation are not realistic. DSI  
18 and Bush River are issued discharge permits by DHEC valid for five (5) years.  
19 Accordingly, discharge limits and other operating constraints are subject to change at five  
20 year intervals. Operating costs accordingly will change and almost always increase at  
21 five years intervals since construction upgrades can be required every five years, the 45  
22 year depreciation allowance recommended by the ORS is unrealistic. DSI would urge a  
23 20 years depreciation schedule for plant.

1    **Q.     Do there remain other issues in dispute with respect to this rate application?**

2    A.     Yes. DSI stands behind its rate application, the exhibits attached to its application  
3    and its direct testimony. Any omission of specific rebuttal is not intended in any way to  
4    concede to the correctness of ORS assertions. DSI and Bush River anticipated when they  
5    filed their rate increase applications so closely together on July 28, 2004 and August 19,  
6    2004, respectively, that both applications would be considered together as were both of  
7    their rate applications in 1996. We recognize that changes in the regulatory process and  
8    time constraints imposed by statute made consolidation of the hearings for DSI and Bush  
9    River impracticable. However the facts requiring Bush River to expand its wastewater  
10   treatment facilities and the construction and other costs necessary to implement Bush  
11   River's consent order with DHEC are not in dispute. Accordingly, we would urge this  
12   Commission to consolidate Docket Nos. 2004-212-S and 2004-259-S and consistent with  
13   the schedule of rates in Order No. 96-44, award DSI the rates requested. If in the event  
14   circumstances do not permit consolidation of these dockets as requested, DSI would  
15   request this Commission establish a rate sufficient to meet its operating expenses after  
16   Bush River is granted its rate increase.

17   **Q.     Does this conclude your rebuttal testimony?**

18   A.     Yes.

## CERTIFICATE OF SERVICE


The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the Rebuttal Testimony of Keith G. Parnell on behalf of Development Service, Inc., indicated below by hand delivery on the date indicated below:

RE:            Application of Development Service, Inc., for approval of new schedule of rates and charges for sewage service provided to residential and commercial customers in all areas served.  
Docket No. 2004-212-S

PARTIES SERVED:

F. David Butler, Esquire  
SC Public Service Commission  
P. O. Drawer 11649  
Columbia, SC 29211

RECEIVED  
2004 DEC 27 PM 3:34  
SC PUBLIC SERVICE  
COMMISSION

  
\_\_\_\_\_  
Scott Elliott

December 29, 2004

## **CERTIFICATE OF SERVICE**

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the Rebuttal Testimony of Keith G. Parnell on behalf of Development Service, Inc., indicated below by hand delivery on the date indicated below:

RE:                   Application of Development Service, Inc., for approval of new schedule of rates and charges for sewage service provided to residential and commercial customers in all areas served.  
Docket No. 2004-212-S

PARTIES SERVED:       Florence P. Belser, Esquire  
Office of Regulatory Staff  
1441 Main Street, Suite 300  
Columbia, SC 29201

A handwritten signature in black ink, appearing to read "Charles H. Cook", written over a horizontal line.

Charles H. Cook

December 29, 2004